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Clean Vehicle Tax Credit Transfers to Car Dealers

In July 2025, Congress repealed the *clean vehicle credit* (CVC) and the *used clean vehicle credit* (UCVC) as part of the FY2025 reconciliation law (P.L. 119-21). These two credits were enacted under the Inflation Reduction Act of 2022 (P.L. 117-169), and final Internal Revenue Service (IRS) regulations were issued in May 2024. The final regulations were unusual in their treatment of tax credits that were transferred from consumers to car dealers. Unlike credits claimed when tax returns were filed, transferred credits could exceed taxpayers' total income tax liabilities.

The Clean Vehicle Credit (CVC)

Taxpayers acquiring new electric vehicles and fuel cell vehicles could potentially qualify for a CVC. The credit is described in Section 30D of the Internal Revenue Code (IRC). Eligible vehicles must have been acquired on or before September 30, 2025, and have undergone final assembly in North America.

The credit amount was \$3,750 for vehicles meeting the *critical minerals requirement* plus \$3,750 for vehicles meeting the *battery components requirement*, for a maximum total credit of \$7,500. To meet the former requirement, a car's battery (1) must have met or exceeded a certain threshold percentage of critical minerals that were extracted or processed in the United States or in a country with which the United States has a free trade agreement, or (2) must have been recycled in North America. The threshold was 40% in 2023, 50% in 2024, and 60% in 2025. To meet the *battery components requirement*, a certain minimum share of a battery's component parts must have been manufactured or assembled in North America. The share was 50% in 2023 and rose to 60% in 2024 and 2025. In addition, vehicles acquired after 2023 could not qualify for the CVC if they used battery components manufactured or assembled by a foreign entity of concern (FEOC); for vehicles acquired after 2024, no applicable critical minerals in the vehicle's battery could come from an FEOC. According to final regulations from the IRS, FEOCs included companies operating in or significantly influenced by the governments of China, Russia, North Korea, or Iran.

To receive the credit, taxpayers must have had modified adjusted gross incomes (MAGIs) for either the current or previous year no greater than certain specified amounts: \$300,000 for married couples, \$225,000 for heads of household, and \$150,000 for single filers and others. For purposes of the clean vehicle tax credits, MAGI was equivalent to adjusted gross income, excluding deductions for expatriates and residents of American territories. When claimed on a taxpayer's income tax return, the credit was *nonrefundable*, meaning that credit amounts in excess of tax liability were not refunded to the taxpayer.

Under the IRA, the credit applied to vehicles acquired on or before December 31, 2032. This deadline was moved up to September 30, 2025, under the FY2025 reconciliation law.

The Used Clean Vehicle Credit (UCVC)

The UCVC, described in IRC Section 25E, provided a tax credit for purchases of used electric or fuel cell vehicles. To qualify for the UCVC, a vehicle must have been purchased from a licensed dealer for \$25,000 or less and must have been acquired by the taxpayer on or before September 30, 2025. In addition, the vehicle's model year must have been at least two years before the year of purchase. The credit could be claimed once per vehicle.

The credit was equal to 30% of the vehicle's sales price, up to a maximum credit of \$4,000 (when the price exceeded \$13,333). Because the UCVC could not be claimed for vehicles costing more than \$25,000, the value of the credit fell from \$4,000 to \$0 when a car's price rose from \$25,000 to \$25,001.

Individuals and couples were eligible for the credit; business entities were not. Taxpayers must have purchased vehicles for personal use, not for resale, and could not have claimed another UCVC in the previous three years. The taxpayers' MAGIs for either the current or previous year must have been no greater than certain specified amounts: \$150,000 for married couples, \$112,500 for heads of household, and \$75,000 for single filers and others. When claimed on tax returns, credit amounts in excess of income tax liabilities could not be received as refunds.

As with the CVC, the UCVC originally applied to vehicles acquired on or before December 31, 2032. This deadline was changed to September 30, 2025, as part of the FY2025 reconciliation law.

Credit Transfers to Car Dealers and the Increased Value of Transferred Credits

Starting January 1, 2024, taxpayers were able to claim the CVC and the UCVC as rebates when purchasing their vehicles. To claim the credits as rebates, taxpayers must have transferred the credit to the car dealer, who then received the credit from the government. Car dealers in turn compensated taxpayers with either a cash payment or a reduced price on the car; the value of the payment or price reduction must have equaled the value of the applicable credit. Buyers were not allowed to transfer partial credits. A 2022 survey found that prospective car buyers preferred such point-of-sale rebates to traditional tax credits, with the immediacy of the rebates reported as an important factor for most consumers. The preference was strongest among low-income buyers, used car buyers, and buyers of low-priced vehicles.

Taxpayers who transferred a credit were still required to file Form 8936 with their income tax return and indicate that they claimed the CVC or UVCV in the tax year. Dealers were required to inform taxpayers of the relevant MAGI limits, and taxpayers must have stated that they expected to be eligible for the given credit. Taxpayers who transferred a credit but exceeded the MAGI limits were required to pay back the credit to the IRS when filing their taxes.

For many taxpayers, the difference between a transferred credit and a credit received at tax time was a matter of convenience; the monetary value of the credit did not change. However, for low-income taxpayers, one aspect of the IRS regulations significantly increased the value of the credits. Specifically, the regulations stated that “the credit amount under section 30D that the electing taxpayer elects to transfer ... may exceed the electing taxpayer’s regular tax liability ... for the taxable year in which the sale occurs.” This rule applied to the UVCV as well.

Because of the progressivity of the federal income tax, low-income taxpayers often have little to no income tax liability. Thus, they generally do not receive the full value of nonrefundable credits. By allowing transferred credits to exceed income tax liabilities, the IRS regulations increased the CVC and the UVCV to their maximum value for all eligible taxpayers below the MAGI thresholds.

The regulations promulgated by the IRS significantly increased the value of the CVC and the UVCV for low-income taxpayers who transferred the credits, as illustrated in **Table 1** and **Table 2**. The total benefit to low-income households was also dependent on the extent to which they purchased qualifying vehicles and (in the case of the UVCV) the prices of the purchased vehicles.

Table 1. Clean Vehicle Credits for Married Couples

Nonrefundable vs. transferred credits for example married couples, by adjusted gross income (AGI), tax year 2024

AGI	Nonrefundable Credit	Transferred Credit
Vehicle meeting both domestic content requirements		
\$20,000	\$0	\$7,500
\$60,000	\$3,233	\$7,500
\$125,000	\$7,500	\$7,500
\$350,000	\$0	\$0
Vehicle meeting one of two domestic content requirements		
\$20,000	\$0	\$3,750
\$60,000	\$3,233	\$3,750
\$125,000	\$3,750	\$3,750
\$350,000	\$0	\$0

Source: CRS calculations.

Notes: Credit amounts are based on the assumptions that (1) couples claim the standard deduction and no other nonrefundable tax credits, (2) couples earning \$350,000 in 2024 earned more than \$300,000 in 2023, and (3) couples’ modified AGIs equal their AGIs.

Table 1 contrasts the values of transferred CVCs and nonrefundable CVCs for hypothetical married couples at different income levels. In these examples, a couple earning \$20,000 per year would have had no income tax liability, so their nonrefundable CVC would have been \$0, whereas a transferred CVC would have been \$7,500 if both the critical minerals and battery components requirements were met. (If the vehicle met only one requirement, the transferred credit would have been worth \$3,750.) A married couple earning \$95,558 would have had 2024 income tax liabilities of \$7,500, so couples earning between \$95,558 and \$300,000 would receive the same amounts from transferred credits and nonrefundable credits. Couples making above \$300,000 would not have received the credit, as their incomes exceeded the MAGI threshold.

Table 2 uses similar examples to contrast transferred UVCVs and nonrefundable UVCVs for married couples with different incomes. Since the UVCV was proportional to the cost of the purchased vehicle, different credit amounts are shown for both high- and low-cost vehicles. For a couple earning \$20,000 and purchasing a qualifying used vehicle for \$13,333 to \$25,000, a transferred credit was worth \$4,000, whereas a nonrefundable credit was worth \$0. For couples earning between \$66,392 and \$150,000, both nonrefundable credits and transferred credits had a maximum potential value of \$4,000 (based on the price of the vehicle). Couples purchasing lower-priced vehicles received smaller credits, and couples earning more than \$150,000 could not receive the UVCV.

Table 2. Used Clean Vehicle Credits for Married Couples

Nonrefundable vs. transferred credits for example married couples, by adjusted gross income (AGI), tax year 2024

AGI	Nonrefundable Credit	Transferred Credit
Used vehicle costing between \$13,333 and \$25,000		
\$20,000	\$0	\$4,000
\$60,000	\$3,233	\$4,000
\$125,000	\$4,000	\$4,000
\$200,000	\$0	\$0
Used vehicle costing \$8,000		
\$20,000	\$0	\$2,400
\$60,000	\$2,400	\$2,400
\$125,000	\$2,400	\$2,400
\$200,000	\$0	\$0

Source: CRS calculations.

Notes: Credit amounts are based on the assumptions that (1) couples claim the standard deduction and no other nonrefundable credits, (2) couples earning \$200,000 in 2024 earned more than \$150,000 in 2023, and (3) couples’ modified AGIs equal their AGIs.

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